(... continued)

Housing starts in 1984 numbered 1.74 million units of which single-family starts -- the major end-market for wood products -- accounted for 62 percent. The value of this new single-family construction in 1984 was put at $73 billion by the Commerce Department. Of the 1,080,000 starts of single-family houses in 1984, approximately 910,000 were detached houses (84 percent). Townhouses, which comprise the balance, are increasing their share of the total as first-time buyers find them to be more economically attractive.

Dodge Index Up

The Dodge Index for the value of seasonally adjusted construction contracts rose in March to 162 (1977=100), a near record. The all-time high in the index of 163 was reached in May, 1984.

Although the value of new residential construction rose in March, along with the pace of housing starts, the number of units started in the first quarter was down from last year. The Department of Commerce reports total starts numbered 345,600 units, down from

(continued ...)

THE NFPA FORECAST

Indicators

	1983	1984	1985 Forecast
Single-family Housing Starts (000)	1067.6	1082.5	1103.6
Multi-unit Housing Starts (000)	645.0	671.0	676.4
Mobile Home Shipments (000)	295.7	295.2	295.0
Other Construction (Billion 1977 $)	112.7	129.6	130.0
Industrial Prod. Index (1967 = 100)	147.6	163.3	165.0
Furniture & Fixtures Index (1967 = 100)	170.5	190.2	193.0

PRODUCTION AND TRADE

	Softwood Lumber (Bil BF)	Hardwood Lumber (Bil BF)	Structural Panels (Bil SF)	Particleboard & MDF (Bil SF)
1983 U.S. CONSUMPTION	39.7	5.4	20.5	4.0
-imports	11.9	0.3	-	0.4
+exports	1.7	0.5	0.7	-
=SHIPMENTS	29.5	5.6	21.4	3.6
±inventory change	0.3	0.1	-	-
=PRODUCTION	29.8	5.5	21.4	3.6
1984 U.S. CONSUMPTION	42.9	5.3	21.6	4.2
-imports	13.3	0.3	-	0.5
+exports	1.6	0.5	0.4	0.1
=SHIPMENTS	31.3	5.5	21.2	3.8
±inventory change	0.2	0.2	-	-
=PRODUCTION	31.1	5.7	21.2	3.8
1985 FORECAST				
U.S. CONSUMPTION	43.6	6.0	21.3	4.3
-imports	13.6	0.4	-	0.5
+exports	1.5	0.4	0.4	0.1
=SHIPMENTS	31.5	6.0	21.7	3.9
±inventory change	0.1	0.2	-	-
=PRODUCTION	31.4	5.8	21.7	3.9

(... continued)

377,700 during the first quarter of 1984. However, the high level of home-building activity in March, coupled with reduced interest rates in May, should mean continued high levels of starts throughout the second and third quarters.

RESIDENTIAL ALTERATIONS AND REPAIRS: THE NEW FRONTIER?

Home improvement expenditures have been on the up swing since the early 1980's. The reasons: an increasingly mobile society that encourages home changes, a cultural shift to "do-it-yourselfers", and the availability of new products for home improvement. Retail chains have capitalized on these trends. Most have expanded during the past couple of years.

The Department of Commerce reports that total expenditures for residential alterations, additions and repairs were $63.2 billion in 1984. Owner occupied, single-family houses accounted for about two-thirds of these expenditures. The amount excludes the value of do-it-yourself labor. During the fourth quarter of last year, the average expenditure per residential property for which improvements were made was reported at $607. This was 20 percent higher when compared with the fourth quarter of 1983.

Retail Lumber Yards Diversifying

According to the Department of Commerce Census of Retail Trade, lumber and building materials account for a smaller percentage of total sales of most retail outlets than they did 15 years ago. Lumber accounted for 27 percent of sales in 1982, down from 35 percent in 1967. Conversely, hardware, tools, and lawn and garden supplies account for a greater proportion of sales than they did 15 years ago. These statistics underscore the tremendous growth of large retail lumber/hardware chains. Total sales of retail establishments whose principal business is lumber and building materials, increased from $7.7 billion in 1967 to $31.4 billion in 1982.

IMPORT/EXPORT PRICES DECLINE

Price indices for U.S. wood product imports and exports declined in 1984. The index for wood product imports was at 100.7 in March (1981=100), down 3.2 percent from 1984's last quarter. The export price index stood at 128.7 in March (1977 = 100), up slightly from last quarter, but down 1.8 percent since March, 1984.

The import index for softwood lumber declined 13.8 percent when compared with March, 1984. This figure shows that despite increasing volume, the value of softwood lumber imports -- principally from Canada -- has declined.

TIMBER CONTRACTS DEFAULTED

From the period October 1, 1982 through December 31, 1984, contracts on 368.8 million board feet of timber were defaulted in Region 6 of the U.S. Forest Service. This region encompasses the coastal areas of Oregon, Washington, and Northern California. Legislation passed last year enables federal timber purchasers to buy out of contracts entered into before January 1, 1982. However, for many producers, the legislative relief was too little too late. Between the time the legislation was passed in early October and the end of the year, 30 million board feet were defaulted.

HARDWOOD PLYWOOD SHIPMENTS ROSE IN 1983

The Department of Commerce recently published the Current Industrial Report (CIR) for the hardwood plywood industry with data for 1983. Total shipments of hardwood plywood amounted to 2,388.5 million square feet in 1983, up 8 percent over 1982. Of this amount, prefinished hardwood plywood made from purchased plywood comprised 1,249.3 million square feet, while shipments of hardwood plywood from producing plants amounted to 1,139.2 million square feet. The value of hardwood plywood shipped from producing plants is estimated at $640.5 million for 1983, prefinished plywood at $228.2 million.

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THE NATIONAL FORESTS: STILL CRITICAL AND STILL CONTROVERSIAL

Accounting for 50 percent of the softwood sawtimber inventory, 18 percent of the commercial forest land, and 25 percent of the annual harvest, the U.S. National Forests are an essential source of raw material for a large number of U.S. forest products companies. Over the years, the management of National Forests has always been controversial. The demands on these lands for timber, wildlife, wilderness, water and recreation have embroiled federal managers in a seemingly endless array of regulation, lawsuits and public debate. A current controversy revolves around so-called "sales below cost" where it is argued by some, that the Forest Service is selling timber without recovering the agency's costs for managing and administering the sales program.

Some Background

The Forest Service manages about 187 million acres of National Forests. About 76 million acres are classified as available commercial forestland. The wilderness acts passed by the 98th Congress brought the acreage in the wilderness system on the National Forests to 32.1 million acres. The potential annual yield foregone because of wilderness set-asides is estimated to be 1.9 billion board feet.

With the major wilderness allocations having been made by Congress, attention has turned to other issues. In an effort to curtail commercial use of National Forests, environmental groups have focused on how the Forest Service administers its timber sales program.

Below Cost Timber Sales -- The Controversy

A number of Forest Service critics claim that the agency is selling a substantial volume of timber which ends up costing more to sell than it returns to the Treasury. The "sales-below-cost" issue has been the subject of congressional oversight hearings and has caught the attention of various interest groups and the media. It is being used by wilderness advocates in an attempt to preclude timber harvests from unroaded areas.

Studies by the General Accounting Office, the Congressional Research Service, the Natural Resources Defense Council and the Wilderness Society have argued that the Forest Service routinely sells timber below cost. The Forest Service has responded that, nationally, the value of timber sold exceeds the costs, although costs exceed revenues on some sales. The Forest Service calculated that, in fiscal year 1983, about 37 percent of the sales were "below-cost".

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MONTHLY STATISTICAL HIGHLIGHTS

Lumber production in April was at a seasonally adjusted annual rate of 37,492 million board feet.

New orders for softwood lumber were up 27 percent in April, while orders for hardwood lumber declined nearly 10 percent.

During the first four months of 1985, imports of softwood lumber from Canada accounted for 32.6 percent of U.S. consumption; imports from Canada were up 7.9 percent during the first four months, their value down 3.8 percent.

The value of U.S. exports of wood products declined 2.4 percent in April to $880.5 million; the total value of wood products imports also declined to $1,499.2 million.

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There is much more to the sales below cost question than at first meets the eye, however. Timber is a long-term investment; it is not readily managed on an annual cash basis. Costs somtimes incurred as part of a harvest, or during the same year as a harvest, may be related to management of the next rotation of trees. Furthermore, the Forest Service maintains that its multiple use mandate precludes the use of annual cash flow criteria to evaluate the sales program. Many sales, according to the agency, are designed with significant non-timber objectives in mind -- i.e. insect and disease protection, wildlife recreation enhancement, etc. Multiple use objectives increase costs, both to the agency and to the purchaser.

A Question of Policy or Economics?

A proper evaluation of the timber sale program should compare total benefits to society with total costs over time. In practice, this standard is difficult if not impossible to achieve. Quantification and valuation of some impacts of timber harvests is difficult. The enormity of the task leads most of those attempting any analysis to work with timber revenues and budgeted costs for the sales program -- a subset of total benefits and costs.

All who have compared timber revenues and costs have agreed that the available cost data are inadequate. Since the Forest Service accounting system was designed to feed the line item budgeting process, costs attributable only to timber production cannot be identified with any certainty. Several problems with the current accounting system must be overcome.

Problems with Forest Service Accounting

First, commercial timber sale activity costs are lumped with other extraneous costs. For example, the timber sale preparation account includes costs of the Christmas tree program, the free use firewood program, and other types of sales. Second, separable and joint costs of timber production are not identified. As an example, road costs which include expenses incurred to provide recreation benefits are not separated from total road costs. Also undifferentiated are costs related to producing both timber and wildlife benefits jointly.

A third problem is that certain revenues are foregone because purchaser costs are increased to protect or produce nontimber outputs. This is reflected in reduced stumpage, but remains unidentified in the Forest Service accounting practices. If harvesting requirements are designed to enhance or protect wildlife habitat thereby increasing harvesting costs, the resulting bid will likely be lower.

Fourth, capital investments, such as roads, are not amortized over future or adjacent harvests or other uses. And lastly, mitigation costs, those costs incurred to protect environmental or esthetic values, are not identified separately from timber production costs.

If these data problems are rectified, the interesting task of cost allocation can begin. Allocating separable costs is conceptually straightforward. On the other hand, economists generally agree that allocating joint costs is inherently arbitrary. Several methods for arriving at equitable allocations have been proposed and are being explored. One such method is the Separable-Costs-Remaining-Benefits technique. Single purpose costs are allocated to specific resource accounts or uses of the forest, and leftover joint costs are then prorated according to some measure of identifiable benefits. While this approach has gained wide acceptance among some government agencies, it may not be adaptable to the Forest Service timber sale program where non-timber benefits are hard to quantify, hard to value and are often controversial. Other joint cost allocation techniques must be explored.

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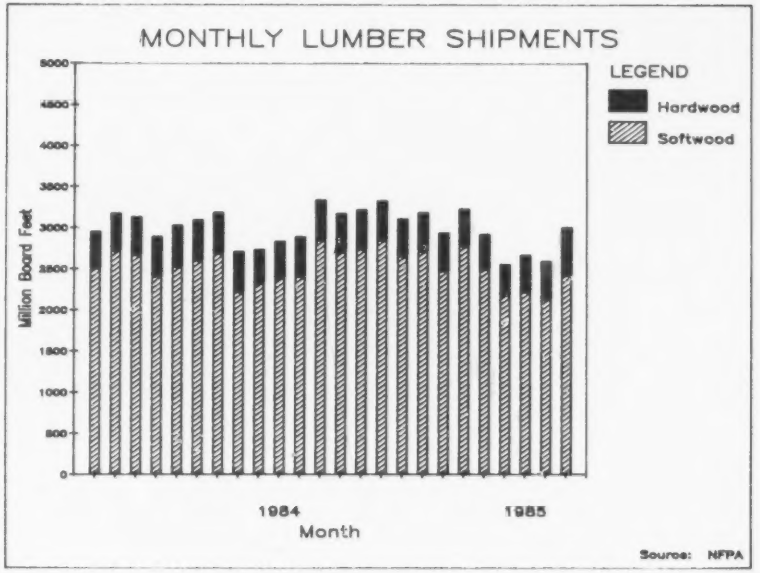
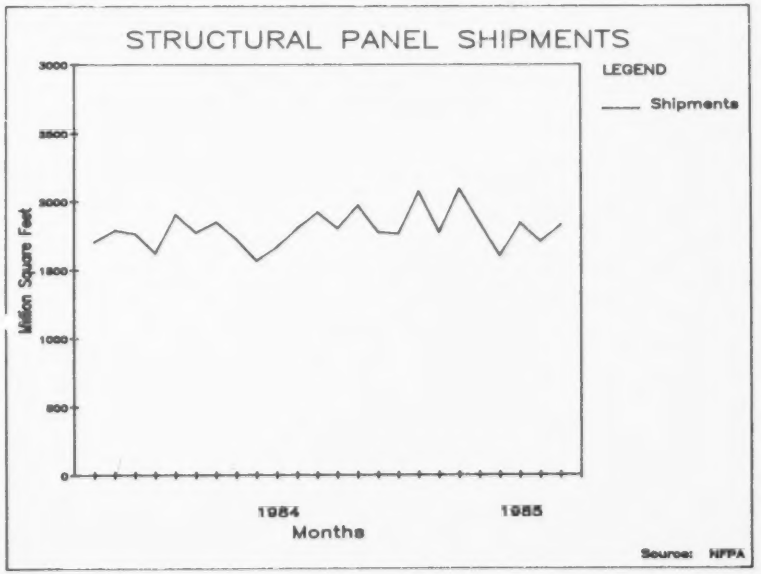
MONTHLY STATISTICS FOR THE WOOD PRODUCTS INDUSTRY

	ESTIMATED INDUSTRY TOTALS BY PRODUCING REGION				
	MARCH 1985			MARCH 31, 1985	
	Production	Shipments	Orders Received	Unfilled Orders	Gross Stocks
SOFTWOOD LUMBER		(Million Board Feet)			
Southern Pine Region	890	881	818	534	1,867
Douglas Fir Region	631	625	637	579	880
Western Pine Region	720	664	671	413	1,285
California Redwood Region	161	140	147	119	403
Other Softwoods	121	117	115	228	298
TOTAL SOFTWOODS	2,523	2,427	2,388	1,873	4,733
% Change - February 1985	12.7%	13.7%	11.4%	-2.0%	2.1%
% Change - March 1984	-14.7%	-15.0%	-14.6%	-20.1%	-4.7%
HARDWOOD LUMBER					
Southern Hardwood Region	245	255	253	248	797
Appalachian Hardwood Reg.	48	50	45	*	*
Other Hardwoods	269	281	276	183	958
TOTAL HARDWOODS	562	586	576	431	1,755
% Change - February 1985	17.1%	25.2%	9.1%	-2.3%	-1.3%
% Change - March 1984	16.4%	19.8%	11.6%	-16.1%	13.5%
TOTAL LUMBER	3,085	3,013	2,964	2,304	6,488
% Change - February 1985	13.5%	15.8%	10.9%	-2.1%	1.1%
% Change - March 1984	-10.5%	-9.9%	-10.5%	-19.4%	-0.4%
* Included in Other Hardwoods					
FLOORING		(Thousand Feet)			
Oak Flooring (Bd. Ft.)	NA	10,046	NA	5,621	5,486
Maple Flooring (Sq. Ft.)	683	802	826	2,211	2,454
STRUCTURAL PANELS	1,874,406	1,827,677	1,931,370	447,342	481,571
% Change - February 1985	7.7%	7.2%	22.5%	30.2%	48.8%
% Change - March 1984	-4.9%	-4.7%	2.3%	6.3%	20.8%





YEAR-TO-DATE PRODUCTION, SHIPMENTS, AND ORDERS

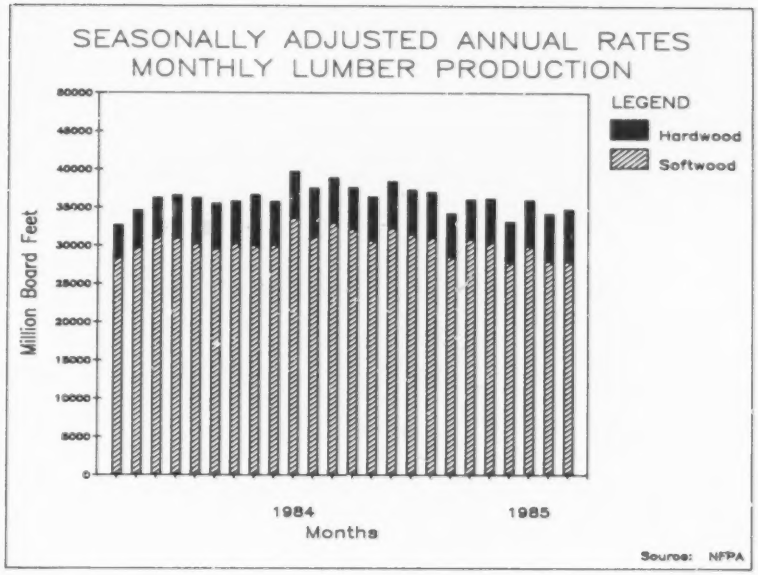
	PRODUCTION		SHIPMENTS		ORDERS RECEIVED	
	Latest Period Available	% Change	Latest Period Available	% Change	Latest Period Available	% Change
	3 mos. '85	3 mos. '84	3 mos. '85	3 mos. '84	3 mos. '85	3 mos. '84
	(Million Board Feet)					
TOTAL LUMBER	8,538	-9.6%	8,275	-8.9%	8,332	-9.8%
TOTAL SOFTWOOD	7,044	-12.1%	6,787	-11.3%	6,794	-12.1%
TOTAL HARDWOOD	1,494	4.3%	1,488	4.2%	1,538	1.9%

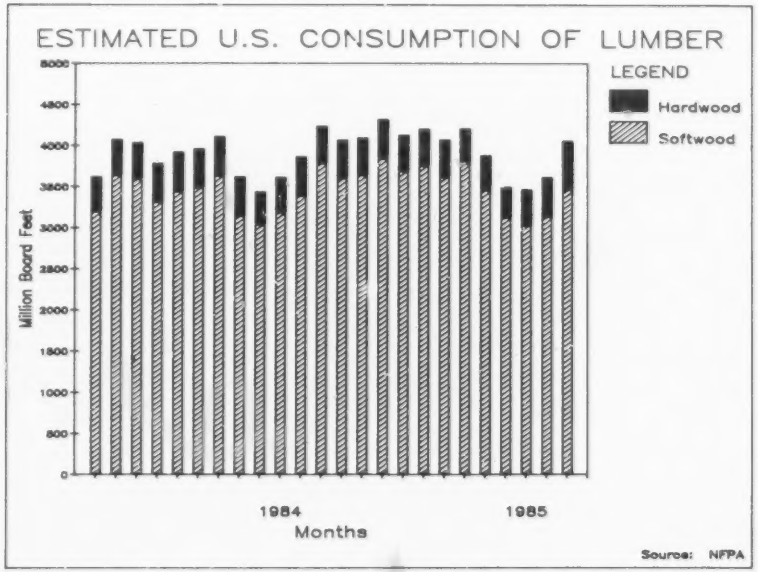
SEASONALLY ADJUSTED ANNUAL RATES

	PRODUCTION			SHIPMENTS		
		--% Change From--			--% Change From--	
LUMBER REGION	Mar. '85	Feb. '85	Mar. '84	Mar. '85	Feb. '85	Mar. '84
	(Million Board Feet)			(Million Board Feet)		
Southern Pine	10,399	5.7%	-6.5%	9,825	1.2%	-4.6%
Douglas Fir	6,654	-4.6%	-25.8%	6,812	-2.2%	-24.3%
Western Pine	8,037	-0.8%	-16.9%	7,398	-1.5%	-18.7%
Calif. Redwood	1,819	0.7%	5.2%	1,576	.0%	-7.9%
Other Softwoods	1,369	-1.5%	-15.4%	1,310	-0.9%	-14.6%
TOTAL SOFTWOODS	28,278	0.6%	-14.6%	26,921	-0.6%	-14.9%
TOTAL HARDWOODS	6,812	10.5%	16.4%	6,834	21.3%	19.8%
TOTAL LUMBER	35,090	2.4%	-9.9%	33,755	3.2%	-9.6%

U.S. LUMBER CONSUMPTION

	CURRENT			YEAR-TO-DATE	
	Latest Month Available	----% Change From----		Latest Period Available	% Change From
	Mar. '85	Feb. '85	Mar. '84	3 mos. '85	3 mos. '84
	(Million Board Feet)				
Total Consumption	4,060	12.2%	-4.3%	11,151	-4.9%
Softwood Consumption	3,473	10.5%	-8.3%	9,654	-6.8%
Hardwood Consumption	587	23.5%	29.0%	1,497	9.4%





INTERNATIONAL TRADE STATISTICS

		VOLUME				VALUE (000$)			
		Mar. '85	3 mo. 1985	% Change From Feb. '85	% Change From 3 mo. 1984	Mar. '85	3 mo. 1985	% Change From Feb. '85	% Change From 3 mo. 1984
EXPORTS									
SOFTWOOD LUMBER	MMBF	128.1	374.4	5.0%	-3.4%	43,522	123,517	12.2%	-8.0%
To Canada	MMBF	22.7	64.6	0.6%	-27.3%	5,908	16,785	2.1%	-25.4%
SOFTWOOD LOGS	MMBF	335.5	893.1	20.4%	6.9%	100,871	265,739	22.5%	-1.2%
SOFTWOOD PLYWOOD	MMSF 3/8"	46.6	125.5	6.4%	-30.0%	10,998	28,680	11.0%	-32.4%
HARDWOOD LUMBER	MMBF	36.4	102.7	16.3%	-12.6%	23,307	61,810	32.8%	-12.7%
HARDWOOD LOGS	MMBF	16.2	38.0	72.9%	-15.3%	12,657	29,104	56.0%	-11.6%
HARDWOOD VENEER	MMSFsurf	69.0	189.0	29.6%	-36.5%	5,939	16,185	15.4%	-29.4%
PARTICLEBOARD	MMSF 3/4"	7.7	25.0	-16.0%	-24.1%	1,459	4,764	-14.6%	-36.6%
ALL OTHER		NA	NA	NA	NA	40,166	113,860	3.4%	-4.4%
TOTAL U.S. EXPORTS		NA	NA	NA	NA	240,183	646,147	17.3%	-8.3%
IMPORTS									
SOFTWOOD LUMBER	MMBF	1,174.4	3,241.6	3.8%	4.7%	228,060	621,476	5.3%	-5.3%
From Canada	MMBF	1,167.8	3,225.0	3.4%	4.5%	226,927	618,432	5.9%	-6.0%
SOFTWOOD LOGS	MMBF	2.3	15.6	-6.5%	-45.0%	697	3,622	-2.1%	-17.5%
SOFTWOOD PLYWOOD	MMSF 3/8"	9.3	24.0	96.2%	57.0%	2,217	5,187	57.6%	55.4%
HARDWOOD LUMBER	MMBF	36.5	105.9	-3.5%	23.6%	17,094	50,136	-2.1%	13.3%
HARDWOOD LOGS	MMBF	0.6	4.3	-54.5%	-43.6%	180	776	-31.8%	-31.3%
HARDWOOD VENEER	MMSFsurf	114.2	288.8	26.9%	-30.9%	8,372	22,893	6.7%	-33.7%
HARDWOOD PLYWOOD	MMSF 3/8"	410.9	932.5	71.4%	38.8%	47,285	120,962	40.9%	19.0%
HARDBOARD	MMSFsurf	59.8	162.4	-5.8%	152.9%	4,115	13,501	-13.9%	2.3%
PARTICLEBOARD	MMSF 3/4"	122,753.6	343,562.3	6.7%	36.3%	10,901	30,989	5.1%	30.1%
ALL OTHER		NA	NA	NA	NA	88,753	230,816	26.4%	-2.8%
TOTAL U.S. IMPORTS		NA	NA	NA	NA	407,886	1,100,803	12.6%	-2.2%

Note: Volume total is not possible because the products are in different units of measure.